

Austerity is as close to political madness as any polic...

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Austerity is as close to political madness as any policy gets. What it guarantees is that things that could be done are not done, and that is bound to lead to political failure.

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This is the audio version:

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This is the transcript:

Economic austerity is as close to political madness as any policy gets.

So let me be clear what I mean when I talk about austerity. Austerity is a policy that a government puts in place knowing that there are things that it might do, but which it decides not to do because it is instead trying to balance its finances to control its supposed debt that people have placed with it. This is what austerity is.

I know Rachel Rees will not agree with that definition.

I know that there are others who might dispute this, particularly in the Labour Party, but if you stand back and look at what most economists say, my definition that I just

offered is pretty consistent with the mainstream view on this issue. And, for once, I'm happy to be in that mainstream.

Austerity is then a policy that is about not doing things, and that is what is really important to understand about it.

The potential to do something - fill in potholes, build schools, run a green strategy, pay benefits, all of those things - could be done, but the government has decided not to because they think that doing so might increase its debt and therefore they won't deliver that policy, which is an option that is available to them.

Now, once upon a time, the great Lord Keynes - the person who I think to have been the most significant economist of the 20th century - said, "We can afford whatever we can do".

I believe he was right. He said that in 1942, in the middle of the Second World War, and he said it for very good reason, because he knew that we could defeat fascism. We had the capability to do it, and therefore we would eventually be able to afford to do it because if we were doing something about which we agreed, the funds that would necessarily be required to achieve that goal would follow from actually undertaking the task.

In other words, the government's funds are created by doing things and not by extracting value from things that other people do or don't do, and this is absolutely fundamental.

The government is not some bit part player in the economy.

It isn't like a micro business.

It isn't like an individual.

The government actually runs the macroeconomy of a country.

It isn't constrained by the availability of money in the economy because it makes the money in the economy.

It isn't constrained by its inability to command resources in the economy because if it decides to do so, it can buy any resources that it wishes within the economy, provided, of course, they are available. In other words, it can't hire a million brick layers if there are only half a million brick layers in the country, but it could decide to train the other half million brick layers it wants if it can provide the necessary incentives for people to go on those courses and then pay them sufficient money to persuade them that's a good idea.

In other words, the government can change everything if it so wishes. That's its unique

role, and yet the whole policy of austerity is run around the idea that it is constrained by debt.

So, let's be clear what debt is. Government debt is sums that people have placed on deposit with the government because they want somewhere safe and secure to put their money because nobody else can guarantee to repay a sum of £2.7, or nearly £2.8 trillion, which is the supposed value of national debt outstanding at the present point in time - although in reality it's only just over £2 trillion because over £700 billion of that £2.8 trillion is actually owned by the Bank of England. But the point is the government can guarantee it will always be able to repay that money and no bank can, and therefore people save with the government.

That's all the national debt is, and if people don't want to save with the government, so be it.

The government can still create the money it wants - it can borrow it from Bank of England and pay them interest on the sum as well, if it so wishes. But remember, they own the Bank of England and therefore the cost is absolutely net neutral.

And this has happened many, many times in our past, most recently until 2006. So, there's nothing very radical about what I've just said either.

So, the point is why do we need a policy of austerity, which is actually consciously denying us the opportunity to do things because some savers may not - and I stress the words, 'may not' wish to give their money to the government when historically, whenever the UK government has over a period of 330 years offered its bonds or savings products to the economy they have always bought them.

It's very hard to work out why anyone would believe that this is a sane economic policy.

The government has never failed to sell its bonds.

There are things to do.

We know they're undone, and we know the resources to do them exist in the economy, and yet because of a microeconomic perspective of what is going on, with the government believing it is just like anyone else in the economy and constrained by such things as the availability of money, which it actually makes, it will not do what is possible.

Why would a politician want to do this? That's very hard to explain.

The only possible reason is they actually believe it is necessary. And in the case of Rachel Reeves, I'm sure that is true. She went to Oxford University. She did a degree there called politics, philosophy, and economics. You will note that in practice, only one-third of that degree was in economics. It was, therefore, pretty basic stuff. And in

that pretty basic economic teaching that she had, she was told that the government does behave like a company, or it does behave like an individual, which is why she keeps on referring to the fact that she remembers her mother balancing the budget on the kitchen table when she was young, as if that is the role model for being chancellor when it isn't.

So, she believes something that is fundamentally untrue. She does that because she was taught it incorrectly at Oxford University by professors who promoted this idea as part of neoliberal economics, the whole goal of which is to constrain the role of government - in other words, to make sure that things that could be done are not done, even though people would benefit from them if they were done.

That is what neoliberal economics is about.

It is about incapacitating democratic choice because we are being denied what is possible.

If you think that's a good choice, you will agree that Rachel Reeves should now be delivering austerity.

If you think the government should do what is possible to the limit of that possibility for the people of the UK because that is what a good government should do, then you will disagree with Rachel Reeves on austerity. You will think she's making a mistake.

I do think she's making a mistake. I think that she has got this fundamentally wrong. The policy of austerity that she is now adopting just to comply with the fiscal rule that she made up - which nobody cares about, and which is also bound to fail - that policy is going to cause us harm.

It's also going to cause her harm because I suspect she will not be Chancellor for long if she carries on like this.

And it will cause the Labour Party harm because I can't see how they can be re-elected if they continue in this way.

As I said at the beginning of this video, there are very few policies that are harder to understand in politics than austerity, but that's what Rachel Reeves is doing, and as a consequence, she is setting out to fail.